Victoria Academies Trust

RESERVES & INVESTMENT POLICY v3.0

Victoria Academies Trust

1. Policy Introduction

i. This Policy provides a procedure to ensure the stability of the Trust's organisational operations, to protect it so that it has the ability to adjust quickly to financial circumstances, such as large unbudgeted expenditure, cyclical maintenance and working capital. It governs the investment strategy for Victoria Academies Trust and to ensure that any surplus funds are invested well so that they achieve the best financial returns with the minimum risk.

ii. An academy is an exempt charity, regulated by the Department for Education (DfE). The Education & Skills Funding Agency (ESFA) expects charities to have a reserves policy. An academy should follow Charity Commission guidance when setting a reserves policy. Their guidance is based on the requirements of charity law, the Charities SORP (Statements of Recommended Practice) and good practice.

iii. Charity Commissions guidance states that - Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. This definition excludes restricted income funds and endowment funds, although holding such funds may influence a charity's reserves policy. Reserves will also normally exclude tangible fixed assets held for the charity's use and amounts designated for essential future spending. Deciding the level of reserves that a charity needs to hold is an important part of financial management and forward financial planning. Reserves levels which are higher than necessary may tie up money unnecessarily. Holding excessive reserves can unnecessarily limit the amount spent on charitable activities, reducing the potential benefits a charity can provide. However, if reserves are too low then the charity's solvency and its future activities can be put at risk. All charities need to develop a policy on reserves which establishes a level of reserves that is right for the charity and clearly explains to its stakeholders why holding these reserves is necessary.

iv. The Charity Commission advises trustees that:

- Charity law requires any income received by a charity to be spent within a reasonable period of receipt. Trustees should be able to justify the holding of income as reserves.
- Reserves are that part of a charity's unrestricted income funds that is freely available to spend.
- Where the trustees have a reserves policy, this policy must be set out in the trustees' annual report.
- If the trustees have not set a reserves policy, this should be stated in the trustees' annual report.
- A good reserves policy takes into account the charity's financial circumstances and other relevant factors.
- It is good practice to monitor the level of reserves held throughout the year.

2. The Trust's Reserves Policy

i. The Trust Board need to consider the level of reserves schools should hold as levels which are too high tie up money which should be spent on current school year activities; levels of reserves which are too low may put future activities at risk.

ii. The aim is to carry forward sufficient funds to meet approved long term capital projects, ensuring that this does not affect operational activities.

iii. The policy:
- assists in strategic planning by considering how new projects or activities will be funded.
- informs the budget process by considering whether reserves need to be used during the financial year or built up for future projects.
- informs the budget and risk management process by identifying any uncertainty in future income streams.

iv. During the financial year the Trust Board identify:
- When reserves are drawn on, so that they understand the reasons for this and can consider what corrective action, if any, needs to be taken.
- When reserve levels rise significantly above target so that they understand the reasons and can consider the corrective action, if any that needs to be taken.
- Where the reserves level is below target, and consider whether this is due to short-term circumstance or longer term reasons which might trigger a broader review of finances and reserves.

v. When considering an appropriate level of reserves, the following need to be considered:
- The risk of unforeseen emergency or other unexpected need for funds.
- Covering unforeseen day-to-day operational costs, for example employing temporary staff to cover a long-term sick absence.
- A fall in a source of income or delay in receipt, such as SEN top up funding
- Planned commitments, or designations, that cannot be met by future income alone, for example plans for a major capital project.
- The need to fund potential deficits in a cash budget, for example money may need to be spent before a funding grant is received.
- The financial risks identified determine the amount of reserves the academy targets to hold.

vi. In-year reports:
- Compare the amount of reserves held with the target amount or target range set for reserves.
- Explain any shortfall or excess in reserves against target set.
- Explain any action being taken or planned to bring reserves into line with target.
- Monthly reviews of restricted and unrestricted surplus balances, e.g. reserves held on the balance sheet from previous year(s), are carried out in all schools to provide clarity to the Trust Board prior to consolidation.

vii. The Trust's annual financial statements will include the reserves policy disclosed in the trustees report including the following information:
- Why reserves are held.
- What amount/range of reserves is considered appropriate for the academy trust.
- What the level of reserves is at the year end.
- How the academy trust is going to achieve the desired level or range of reserves.
- How often the reserves policy is reviewed.

viii. The Board Trust has decided that a consolidated, reserve level which equates to one month's average running costs (including payrolls) for all academies together along with the central Trust is appropriate. Reserves over this amount would be allocated to major projects, in line with the Trust Business Plan. This consolidated view presumes all schools are not in deficit. The level of reserve will be reviewed on an annual basis as part of the budget setting plan. Restricted funds e.g. CIF grants

3. The Trust's Investment Policy

i. As stated above adequate reserves need to be maintained to cover one month's operating costs. Surplus funds not required for an initial 90-day period will be considered for investment in line with each academy's cashflow forecast.

ii. Short term funds expected to be required within a 12 month period should be held in liquid investments i.e. cash deposits and invested in tranches of up to £100,000 after approval. It may be beneficial to invest each tranche with different financial institutions and reduce overall risk. Funds and any interest / return they earn will automatically be reinvested unless they are required for immediate or anticipated expenditure.

iii. When selecting suitable investments, the financial strength of the financial institution will be taken into consideration within the assessment of overall suitability. Investments can only be made with Lloyds Banking Group. The Trusts bankers. Lloyds currently has a credit rating of A3 as per Moody's credit rating.

iv. At the time of last review it was not anticipated that there will be any funds available for longer term investment. Should the position change the policy will be amended to include a suitable strategy to manage longer-term investments.

4. Approval & Control

i. Written approval is required from the Trust CEO and COO prior to any investments.

ii. Approval is required upon the maturity of a deposit to reinvest the monies for the same deposit period.

iii. Investments will be controlled and reconciled by the Trust Central Finance team on a monthly basis. Any control breaches will be reported to the Trust Board.

Signed by

___________________ Chair of Board Date: ....
___________________ Headteacher Date: ....